newsquawk

Week Ahead 6-10th January 2025

Highlights include US NFP, FOMC Minutes, ISM Services PMI, Inflation data from China, EZ and Australia

- **MON**: EZ, UK & US Final Composite & Services PMIs (Dec), German Prelim. CPI (Dec), US Factory Orders (Nov)
- **TUE**: Swiss CPI (Dec), EZ Flash HICP (Dec), Canadian Trade Balance (Nov),US ISM Services PMI (Dec), JOLTS (Nov)
- **WED**: FOMC Minutes (Dec); German Retail Sales (Nov), Swedish CPIF (Dec), Australian CPI (Nov), US ADP (Dec)
- **THU**: German Trade Balance (Nov), EZ Retail Sales (Nov), US Jobless Claims (w/e 4th)
- **FRI**: Norwegian CPI (Dec), US Labour Market Report (Dec), Canadian Labour Market Report (Dec), US Uni. of Michigan Prelim. (Jan), Chinese CPI (Dec), M2/New Yuan Loans (Dec)

SWISS CPI (TUE): November's release came in at 0.7%, slightly shy of newswire consensus at 0.8% but modestly hotter than the 0.6% prior. The week after the release the SNB surprised markets with a 50bps cut, a cut which was accompanied by a near-term trim to their inflation forecast reflecting "the lower-than-expected inflation in the case of oil products and food"; however, they also noted that "thanks to the policy rate cut today, there is little change in the medium term" inflation forecast. Specifically, the Q4-2024 projection was cut to 0.7% (prev. 1.0%), a figure which implies a reading of around 0.8% in December. While December's print is of note, the focus is primarily on the development of inflation over the next few quarters with CPI Y/Y seen averaging just 0.2% in Q2-2025 before picking back up towards the end of the year/start of 2026. Forecasts which mean that further cuts to the policy rate cannot be ruled out. Chairman Schlegel kept the possibility of a return to NIRP open both before and after the December announcement; though, he described the likelihood of this as small.

EZ FLASH CPI (TUE): Expectations are for December's HICP print to pick up to 2.4% from 2.2% whilst the super core rate is expected to hold steady at 2.7%. As a reminder, the prior release saw headline Y/Y CPI rise in November to 2.4% from 2.0%, which was largely expected on account of base effects. Super-core inflation remained at a stubborn level of 2.7% whilst services inflation ticked marginally lower to 3.9% from 4.0%. Investec expects the recent trend of headline inflation being driven higher by energy and food inflation, whilst core inflation remains steady to continue into December. Investec's forecasts are in-line with the consensus and notes that such an outcome would mean that "inflation would have undershot the baseline forecasts in the ECB's December Staff Projections slightly in Q4 by 0.1% on both headline and core inflation". As such, an in-line release would bolster calls for further easing by the ECB, particularly if "weak survey data were to be borne out in 'hard' economic statistics". It is worth noting that regional prints will be reported ahead of the bloc-wide print on Tuesday. So far, Spain has reported a Y/Y increase to 2.8% from 2.4% and an acceleration in core price pressures. In terms of current market pricing for the ECB, 27bps of easing is expected for the January meeting with a total of 105bps by year-end.

US ISM SERVICES PMI (TUE): Analysts expect the Services ISM will rise to 53.5 in December from 52.1 in November. As a basis of comparison, S&P Global's flash PMI data for the month showed Services business activity rising to a 38-month high in December, to 58.5 from 56.1, with new orders rising at a rate not seen since March 2022. The composite PMI data indicated that growth was primarily driven by the service sector in December. Inflation remained subdued, with prices rising at the slowest rate since June 2020; while raw material costs surged in manufacturing, a slowdown in the service sector helped reduce overall inflationary pressures, S&P said. Meanwhile, Employment in services saw its first increase since July, but the rise was modest, reflecting cautious staffing decisions aimed at cost control.

FOMC MINUTES (WED): At its December meeting, the Fed cut rates by 25bps to 4.25-4.5%, as expected. The vote was split 11-1, with Hammack voting to leave rates unchanged. The statement was little changed from the November meeting but added that in considering the "extent and timing" of additional rate adjustments (prev. In considering additional adjustments), the Committee will assess incoming data, evolving outlook and balance of risks, signalling a slowing of easing ahead. A further hawkish skew came in the updated SEPs, where the median dot plot for 2025 and 2026 FFR forecasts were lifted above expectations. Recapping: the median 2025 and 2026 dot rose to 3.9% (prev. 3.4%, exp. 3.6%) and 3.4% (exp. 3.1%, prev. 2.9%), respectively, while 2027 and longer run median dot plots rose to 3.1% (prev. 2.9%) and 3.0% (prev. 2.9%). As such, the 2025 median dot plot signals just two 25bps cuts in 2025; but the FOMC were more aligned this time round - four members see rates above the median, and five see rates below, but ten were in line with the median. Elsewhere, Core PCE inflation is now seen at 2.5% for 2025 (exp. 2.3%, prev. 2.2%) and 2.2% for 2026 (exp. 2.0%, prev. 2.0%). Forecasts for the unemployment rate were largely as expected, with all horizons, ex-longer run, seen at 4.3%, although 2027 was expected. Chair Powell stated that the Fed is squarely focused on its dual-mandate, and that the economy is strong, with the labour market solid, and inflation much closer to its 2% goal. Powell added that the policy stance is now significantly less restrictive, and going forward the Fed can be more cautious. In his Q&A, the Fed Chair said that the decision was a "closer call", but the "right call", suggesting there was a discussion surrounding holding rates at the meeting. Powell added that risks were two-sided, and officials were trying to steer between those two risks. On the statement change, he said that "extent and timing language" shows the Fed is at or near the point of slowing rate cuts, and the slower pace of cuts reflects that expectation. He also said that cuts that are made in 2025 will be in response to data and, as long as the labour market and economy are solid officials can be cautious as they consider further cuts. Additionally, looking to US President-elect Trump's term, Powell said some people did take a very preliminary step and incorporated conditional effects of coming policies into their projections. Looking ahead, the Fed chief said the Committee will be looking for further progress in inflation to make cuts, and added that from here is a new phase, and the Fed is going to be cautious about further cuts. After the meeting, Goldman Sachs said despite the hawkish message from the dots, they kept their more dovish baseline forecast of three more cuts in March, June, and September 2025 unchanged, though added a bit more probability weight in their Fed scenario analysis to an outcome with a higher terminal rate.

SWEDISH CPIF (WED): There is currently no newswire consensus for the inflation metrics, but SEB believes the headline Y/Y will print at 1.18% (prev. 1.56%, Riksbank forecast 1.26%); analysts expect the ex-energy figure to print at 2.22% (prev. 2.40%, Riksbank forecast 2.23%). As a reminder, November's CPIF came in at 2.4% for the ex-energy Y/Y measure, much hotter than the Riksbank's 2.0% view. Some of this was due to base effects, but nonetheless the report was hotter than expected. This led the Riksbank to step down from a 50bps cut to a 25bps one; with the Bank ultimately reiterating guidance for another cut in H1-2025. A cut the recent minutes have highlighted could occur in January or March, and as such the December CPIF report could prove decisive in determining the timing of the next move.

AUSTRALIAN CPI (WED): Australian monthly CPI for November is expected to have ticked higher to 2.3% from 2.1% in October. Analysts at Westpac expect a shallower uptick to 2.2% and suggest that "a lift in food and housing prices is anticipated." The release will be of utmost focus for the RBA after the latest central bank statement suggested "some upside risks to inflation appear to have eased" and the "Board is gaining some confidence that inflation is moving sustainably towards the target". This was followed by the post-meeting presser in which

Governor Bullock said the Board needs to think carefully about policy and needs to see more progress on underlying inflation, while she added that she does not know if RBA will cut rates in February and will have to watch data. As a reminder, the prior release saw monthly CPI below the expected 2.3%, with ABS noting that the most significant price rises at the group level were Food and non-alcoholic beverages (+3.3%), Recreation and culture (+4.3%), and Alcohol and tobacco (+6.0%). Partly offsetting the annual increases in other Groups was Transport (-2.8%).

NORWEGIAN CPI (FRI): A print which comes ahead of the 23rd January policy announcement, an announcement which is not expected to see a rate change as the Norges Bank guided participants to the March meeting as the time when “the policy rate will most likely be reduced”. The November CPI-ATE figure came in at 3.0%, slightly above market consensus of 2.8% but in line with the Norges Bank’s own projection. As a reminder, the Norges Bank’s projection for CPI-ATE across Q4 is 2.8% which implies that the December figure should fall back towards the 2.7% rate seen in October.

US JOBS REPORT (FRI): The consensus currently expects that the US economy will have added 150k nonfarm payrolls in December (vs 227k in November), with the unemployment rate being unchanged at 4.2%. Analysts suggest that the December data will show payrolls normalising after the previous data reflected the rebound from previous weather-related/industrial action disruptions. Labour market proxies have been mixed. "Survey indicators are providing mixed signals on labour demand," Capital Economics writes, "the JOLTS hiring rate has slowed below pre-pandemic levels and job openings have normalised; but both the weighted-average ISM employment index and NFIB hiring intentions indicators picked up at the end of last year." CapEco says that these were a poor guide to payrolls in 2024, but several other measures of labour market slack have also stabilised in recent months; "on balance, this suggests to us that payrolls will sustain their current momentum." The FOMC's latest projections see the jobless rate rising to 4.3% this year, where it is expected to remain throughout the Committee's forecast horizon, before settling around 4.2% in the long-term. However, analysts note that officials have premised their views on different assumptions regarding the policies of the incoming Trump administration, and that suggests that as new policies are enacted, the Fed's view is likely to change in the months ahead. Meanwhile, average hourly earnings are seen rising +0.3% M/M (prev. +0.4%), with the annual rate seen remaining at 4.0% Y/Y. The November data's wage figures surprised to the upside, and analysts will be watching to see if this continues, or normalises; another above-consensus wage metric could fuel concerns about accelerating pay growth, which could limit the Fed's scope to continuing cutting rates ahead, some suggest, despite Fed officials arguing that the current labour market was not a source of inflation pressures. CapEco notes that the JOLTS private quits rate points to average hourly earnings growth dropping to around 3% ahead, "however, other measures of labour market slack have not loosened to the same extent and have also picked up recently, raising the possibility that wage growth may not slow as much as the quits rate seems to suggest in 2025."

CANADIAN JOBS REPORT (FRI): The Jobs Report will help shape expectations for the BoC's 29th January meeting, with c. 18bps of easing currently priced, which implies a c. 72% probability of a 25bps rate cut. The last BoC meeting saw the bank cut by 50bps for the second consecutive meeting, but it signalled a slowing of its easing process ahead by removing language from the statement about it being reasonable to expect further rate cuts if the economy evolves in line with the forecast. The 50bps rate cut also took the BoC's policy rate to the top end of the bank's estimate for the neutral rate with the bank highlighting how decisions will be guided by information and their assessment of the implications for the inflation outlook. The prior jobs report saw a notable increase in the unemployment rate (coupled with an increase in the participation rate). The BoC acknowledged that the unemployment rate has gone up, but they are yet to see widespread job losses as typically seen in a recession, something the BoC does not expect to occur.

CHINESE CPI (FRI): CPI for December is expected to remain at 0.2% Y/Y while PPI is seen ticking slightly higher to -2.4% from -2.5%. The release will help deliver a prognosis on China’s economic health against the backdrop of persistently subdued domestic demand, recently announced stimulus, and ahead of US tariffs under incoming President Trump. The latest Caixin PMI release suggested “Since late September, the synergy of existing policies and additional stimulus measures has continued to act on the market, producing more positive factors. The economy in general remains stable, on the path to achieving the main goals set for 2024. That said, it is worth noting that prominent downward pressures remain, with tepid domestic demand and mounting unfavourable external factors… In December, some of the Caixin manufacturing PMI survey’s gauges declined, suggesting more time is needed to assess the consistency and effectiveness of previous policy stimulus.”